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September 11, 2006

AGENDA ITEM 3

TO: MEMBERS OF THE AD HOC BOARD GOVERNANCE COMMITTEE

- I. SUBJECT:** Delegations of Authority
- II. PROGRAM:** Administration
- III. RECOMMENDATION:** The Legal Staff recommends that the Committee adopt the proposed revisions to the Board's Statement of Governance Principles as set forth in Attachment A

IV. ANALYSIS:

The Investment Office recently embarked upon a comprehensive project to review, update and improve upon the existing body of its investment policies and delegations of authority. The objectives of the project were to achieve a more streamlined, consistent and referable policy and delegation framework for the investment program. Investment Staff's work in connection with the portion of the project relating to delegations was discussed at the Board's July 2006 offsite meeting. At the offsite meeting, members of the Board noted, among other things, that the issue of delegations has enterprise-wide implications and that the Board's Statement of Governance Principles should be revised and clarified on the issues of sub-delegation, finality, authority and responsibility.

The Legal Staff, working with the Board's fiduciary counsel, has revised the Board's Statement of Governance Principles consistent with the comments made at the Board's July 2006 offsite meeting. The proposed revisions are set forth in Attachment A, an excerpt of the Board's Statement of Governance Principles. (Attachment B contains a clean version of the proposed revisions.)

The revisions to the delegation section of the Board's Statement of Governance Principles will clarify the authority and process for, and the standards applicable to, making delegations.

In summary, the revisions:

- Define "delegation;"

- Acknowledge the power of the Board to delegate responsibilities to committees of its members and to the Chief Executive Officer;
- Set forth the standards for and content of delegations;
- Set forth the Chief Executive Officer's authority to sub-delegate;
- Provide that a delegation by the Board or its committees to the General Counsel, the Chief Actuary, the Chief Investment Officer or any other CalPERS staff member or contractor is deemed to be a delegation by the Board directly to the Chief Executive Officer who then sub-delegated to such individual;
- Provide that a delegatee may take final action as to any responsibilities delegated to him or her except where the delegation requires prior review and ratification by the party making the delegation; and
- Provide that where a delegatee is authorized to take final action, responsibility and accountability for actions taken pursuant to the delegation will reside with the delegatee.

The Legal Staff recommends that the Subcommittee adopt the revised principles relating to Board delegations.

V. STRATEGIC PLAN:

This project supports Goal II of the 2005 Strategic Plan Goals which calls for CalPERS, as an organization, to "foster an environment that values quality, respect, diversity, integrity, openness, communication and accountability."

VI. RESULTS/COSTS:

Memorializing the Board's delegation process will improve the efficiency of Board and staff operations.

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